

## Europeanization subverted? The European Union's promotion of good governance and the fight against corruption in the Southern Caucasus

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## EUROPEANIZATION SUBVERTED?

The European Union's Promotion of Good Governance and the Fight against Corruption in the Southern Caucasus

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Tanja A. Börzel and Yasemin Pamuk

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# EUROPEANIZATION SUBVERTED?

## THE EUROPEAN UNION'S PROMOTION OF GOOD GOVERNANCE AND THE FIGHT AGAINST CORRUPTION IN THE SOUTHERN CAUCASUS

Tanja A. Börzel and Yasemin Pamuk

### Abstract

In order to foster peace, stability and prosperity in its near abroad, the European Union has invoked the European Neighbourhood Policy that seeks to transform the domestic structures of the Newly Independent States in the post-Soviet space thus building a “ring of friends” that share European norms and principles of democracy, rule of the law, market economy, and good governance. Empirical evidence, however, suggests that the EU's capacity to hit across its borders and to realize its reform agenda seems limited. Moreover, most neighborhood countries appear to be stuck in transition and suffer from serious problems of both weak state capacity and defect democracy. Hence, EU efforts may also bear the danger of unintended and negative effects on the domestic structures of states, as its policies and institutions do not only empower liberal reform coalitions, to the extent that they exist in the first place, but can also bolster the power of incumbent authoritarian and corrupt elites. This paper intends to capture this “dark side of Europeanization” (Schimmelfennig 2007). It thus conceptualizes ENP as a political opportunity structure that provides opportunities and constraints to both supporters and opponents of the European Union's reform agenda. Which of the two ultimately get empowered depends not only on the EU's capacity to push for reforms but also on the pull of domestic actors.

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## 1. Introduction<sup>1</sup>

With the borders of the EU having moved eastwards, students of Europeanization have been awarded yet another real-world experiment. As in case of the accession countries, the EU seeks to transform the domestic structures of the Newly Independent States (NIS) that used to be part of the Soviet Union and now form the immediate backyard of the EU. In order to foster peace, stability and prosperity in its near abroad, the EU seeks to build a “ring of friends” (European Commission 2003) that share the same norms and principles of good governance as the EU and its member states and adapt their domestic institutions and policies accordingly. Unlike the Central and Eastern European countries (CEEC), the Western Balkans and Turkey, however, the European neighborhood countries (ENC) appear to be stuck in transition and suffer from serious problems of both weak state capacity and defect democracy. Moreover, they do not have a membership perspective, at least not in the foreseeable future.

Studies on “Neighbourhood Europeanization” (Gawrich et al. 2009) have shown that the EU’s capacity to hit across its borders has been limited (Smith 2005; Weber et al. 2007; Sasse 2008; Kelley 2005; Lavenex 2004). Our paper argues that the EU has induced some formal institutional change, which, however, has helped to stabilize rather than change existing regimes. Thus, we do observe the Europeanization of domestic structures of formerly Soviet republics, which, however, appears to have opposite effects of what the EU intends to achieve with its European Neighbourhood Policy (ENP). In order to explore these pathologies of Europeanization, we focus on the EU’s attempts to promote good governance, in particular on the fight against corruption. The post-Soviet area features some of the most corrupt countries in the world, including the Southern Caucasus region. High adaptation costs and limited incentives render Armenia, Azerbaijan and Georgia least likely cases for Europeanization and domestic change. Our comparative study will show that despite high misfit and low pressure for adaptation from above and below, all three have responded to the EU’s demands for good governance introducing similar formal institutional changes. Yet, rather than systematically fighting corruption, incumbent regimes have exploited the EU selectively implementing anti-corruption policies to cut the power resources of their political opponents.

The first part of the paper develops a “bottom-up” perspective on Europeanization and (unintended) domestic change, focusing on how incumbent elites rather than liberal reform coalitions have used the EU to advance their interests, consolidating rather than changing existing power structures. The second part compares how Armenia, Azerbaijan and Georgia have responded to EU demands for domestic change in fighting corruption. We will show how all three regimes introduced similar formal institutions and also engaged in some anti-corruption activities. Yet, the domestic changes we observe are less driven by EU pressure for adaptation. Rather, the incumbent regimes have managed to exploit the fight against corruption to consolidate their power. As a result, Europeanization tends to stabilize rather than transform governance structures in the Southern Caucasus.

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## 2. The Dark Side of Europeanization

Approaches to Europeanization and domestic change have been increasingly criticized for their rather narrow top-down perspective which conceptualizes the process largely as a one-way street and treats target countries as passive recipients of EU demands for change (Olsen 2002; Kohler-Koch 2003; Jacquot/Woll 2003). Domestic actors have other choices in responding to Europeanization than endorsing or resisting EU induced reforms; they can instrumentalize EU policies and institutions to advance their own interests decoupling them from their normative contents. Europeanization approaches have identified the differential empowerment of domestic actors as a key mechanism of domestic change (Cowles 2001; Börzel 2003). Yet, they assume that those empowered are reform-minded or liberal coalitions that pressure or argue in favor of compliance with EU requirements (Schimmelfennig 2005; Vachudova 2005). While veto players can still impede domestic change if they are powerful enough, students of Europeanization have turned a blind eye to the possibility that opponents of EU reforms can also use the EU to advance their power and interest, inducing some domestic change, which, however, goes in the opposite direction of the EU's intentions (but see Elbasani 2009; Noutcheva 2009).

In short, Europeanization can have unintended and negative effects on the domestic structures of states. EU policies and institutions do not only empower liberal reform coalitions, to the extent that they exist in the first place, but can also bolster the power of incumbent authoritarian and corrupt elites. In order to capture this "dark side of Europeanization" (Schimmelfennig 2007), we will conceptualize the ENP as a political opportunity structure that provides opportunities and constraints to both supporters and opponents of the EU's reform agenda. Which of the two gets ultimately empowered depends not only on the EU's push for reforms but also on the pull of domestic actors. The degree of political liberalization and statehood of the countries targeted by the EU have a crucial influence on both the EU push and the domestic pull and therefore provide important scope conditions for the ways in which EU incentives empower domestic actors.

### 2.1 *The Power to Transform (EU Push)*

Adopting the EU's agenda for good governance entails significant costs for target countries. In general, the costs of adaptation for incumbent governments of democratic states with market economies are lower than for authoritarian regimes, which have a firm grip on economy and society. Since the EU cannot legally coerce or militarily force third countries into good governance, the EU's power to transform the domestic structure of third countries is limited to changing the behavior of governments through incentives and socialization.

The ENP features three types of instruments in this regard. Firstly, capacity-building programs provide technical and financial assistance geared towards building institutions and capacities that are necessary to facilitate reform. The unconditional transfer of resources and know-how strengthens the capacity of governments to cope with the reform agenda (assistance) and act upon the incentives provided by the EU. They may also give governmental actors the necessary funds and/or legitimacy to address undesirable

social or economic consequences (Jacoby 2006). Secondly, the EU can use political dialogue to win over the minds of governmental actors through persuasion and social learning. Political dialogue aims at *socialization* of the target government into the norms and rules the EU seeks to promote. Finally, external *incentives* allow manipulating the cost-benefit calculations of governments. Whereas institutional or financial benefits reward improved (future) behavior (positive conditionality), ex-post sanctions are imposed on undesirable behavior and withhold or suspend benefits for target countries (negative conditionality).

The EU's tool box is mostly geared towards pushing governments to introduce domestic reforms. It also seeks to enlist the help of domestic non-state actors providing them with financial and technical resources, giving them access to transnational networks and pressuring government to involve them into the reform process (Börzel/Pamuk/Stahn 2008).

While the ENP is a one-size-fits all framework, EU push has varied across countries. The economic and political power of the EU renders its external relations with neighboring countries rather asymmetric. In principle, the ENC have much more to gain with closer relations with the EU, giving it more bargaining power. However, some states possess resources (gas, oil) the EU is interested in, are of strategic importance, have the potential to create substantial negative externalities for the EU (illegal immigration, cross-border crime) or have alternative allies or loyalties at their disposal (Way/Levitsky 2007). Strategic or economic goals can seriously undermine the consistency of the EU in pushing for domestic change, particularly if the target countries do not possess a membership perspective (Maier/Schimmelfennig 2007; Schimmelfennig/Scholtz 2009). As we have shown elsewhere, the mix of instruments on which the EU relies is heavily influenced by the degree of liberalization and statehood of the target country. The more democratic a regime and the more consolidated its statehood, the more likely the EU is to use incentives, as it has done in the case of Georgia, while Armenia and Azerbaijan, which are more authoritarian and whose statehood is more limited have been mostly exposed to socialization and capacity-building (Börzel/Pamuk/Stahn. 2008).

The domestic context of the target countries is not only an important factor in mitigating the EU's push; it is also decisive in shaping the response of domestic actors to EU demands for change.

## 2.2 *The Disposition to Perform (Domestic Pull)*

The EU's external push is not sufficient to induce domestic change (Jacoby 2006). Several studies have demonstrated that it requires a significant pull by domestic actors, particularly if governments are reluctant to face the costs of adaptation (Kelley 2004; Zielonka/Pravda 2001; Vachudova 2005).

Target governments are not passive recipients of the EU's demands for change. The higher the costs of adaptation (misfit), the more likely they are to resist compliance, particularly if domestic veto players oppose domestic change. If, by contrast, norm entrepreneurs and reform coalitions are pulling EU policies and institutions down to the domestic level, the resistance of governments and veto players may be overcome. High push and pull makes Europeanization more likely and vice versa. In the rare cases where low push combines with high pull, chances of Europeanization are still good. High push and low pull, by contrast,



will not result in much domestic impact of the EU since governments have no reason to face the externally induced adaptation costs and the resistance of domestic veto players.

If these theoretical expectations of the Europeanization literature hold, the prospects of the EU's attempt to promote good governance in the Southern Caucasus look rather bleak. Human rights, democracy, the rule of law and the fight against corruption require institutional reforms that challenge the political survival of semi-authoritarian regimes which often rely on clientelistic networks rather than outright repression to stay in power. Their resistance against domestic change should therefore be high. Given the lack of a membership perspective, the economic and political interests of the EU in the stability of the region and the access to its energy resources and the competition with Russia over its backyard, the EU has hardly any leverage to push for domestic reforms. Domestic pull, finally, is likely to be equally weak. While the lack of pluralistic institutions gives potential veto players not much of a voice, civil society organizations are too weak to act as norm entrepreneurs. High costs combined with low external push and domestic pull make the Southern Caucasus a least likely case for Europeanization. Indeed, the transformative power of the EU has been very limited – despite or rather *because of* the domestic changes the three neighborhood countries have introduced in response to the EU's demand to fight corruption.

Our case studies will show that we do find instances of Europeanization, which have, however, stabilized rather than transformed domestic structures. The pathologies of Europeanization are explained by the successful strategy of incumbent government to selectively adopt anti-corruption measures pushed by the EU's good governance agenda to advance their own interests and consolidate their power.

### 3. External Push and Domestic Pull in the Southern Caucasus

#### 3.1 High Misfit, Prohibitive Costs and Limited EU Push

Since the demise of the Soviet Union in 1991, the relationships between the EU and the ENC have evolved in several steps, each envisaging a further intensification of the bilateral cooperation. Likewise, the EU's demand for improving governance by engaging in substantial domestic reforms has increased significantly over the past years. When Eastern enlargement placed Armenia, Azerbaijan and Georgia into the EU's immediate vicinity, the fear of political instability, organized crime and illegal migration induced the EU to once again deploy its transformative power this time trying to hit beyond its borders. The ENP launched in 2004 aims at fostering peace, stability and prosperity in the EU's new near abroad (European Commission 2004).

The ENP intends to build a “ring of friends” (European Commission 2003: 4) that share European norms and principles and are willing to adapt their domestic institutions and policies respectively. Generally speaking, the ENP reform agenda includes three major dimensions: democracy promotion, market integration and (energy) security cooperation (Weber et al. 2007). Good governance constitutes a key cross-cutting issue that is mainstreamed into the Action Plans (AP) concluded with all three countries in 2006 after they had been included in the ENP. It covers issues such as improving electoral legislation, conducting free and fair

elections, ensuring the separation of power (particularly with regard to the judiciary), encouraging the development of political parties and civil society organizations, granting the independence of media, protecting human rights and civil liberties (particularly minority rights) and fighting corruption (Börzel/Stahn/Pamuk 2010).

In order to promote this ambitious reform agenda, the European Commission has heavily relied on the top-down methods and instruments of its former accession policy with regard to the CEE countries (Kelley 2006). When it comes to the practical application of the Action Plans in Georgia, Armenia and Azerbaijan, the EU has clearly focused on enhancing the effectiveness of state institutions in providing public goods and services rather than promoting democracy and human rights (Börzel/Stahn/Pamuk 2010). Its emphasis on output-related reforms reflects a preference for political stability over democratic change (Börzel/Pamuk/Stahn 2009). Still, making state institutions more effective implies a strong emphasis on the fight against corruption, which implies huge costs of adaptation.

The Southern Caucasus countries have ranged among the most corrupt countries in the world, although scope and form of corruption differ. While Georgia has significantly improved its record since the Rose Revolution, the situation has remained more or less stable in Azerbaijan and has deteriorated in Armenia (Figure 1). Despite the differences, corruption is pervasive in all three countries, including Georgia. Tightly organized patronage networks permeate the public sphere and help sustain a stable equilibrium of informal institutions through “vertical organization and horizontal coordination of corruption” (Johnston 1999: 15). The extensive misuse of social networks for particularistic purposes favors certain political interests and excludes others from the distribution of public goods (Drury et al. 2006; Stokes 2007).

Finally, uncontested control of the incumbent regime, the lack of economic alternatives and a comparatively weak civil society further add to the institutionalization of oligarchic monopolies (Shleifer/Vishny 1993). Corruption does not only yield huge private rents but also allows incumbent elites to control the access to power and resources securing the loyalty of key domestic actors (International Crisis Group 2004).

*Figure 1: Corruption in the Southern Caucasus*

Transparency International Corruption Perception Index	Armenia	Georgia	Azerbaijan
2004 (rank out of 146 countries)	3.1 (82.)	2.0 (133.)	1.9 (140.)
2006 (rank out of 163 countries)	2.9 (93.)	2.8 (99.)	2.4 (130.)
2008 (rank out of 180 countries)	2.9 (109.)	3.9 (67.)	1.9 (158.)
2010 (rank out of 178 countries)	2.6 (123.)	3.8 (68.)	2.4 (134.)

The scale ranges from 0 (high corruption) to 10 (low corruption).

The EU Action Plans require the three Caucasian neighborhood countries (CNC) to accede, ratify and implement international conventions that are related to the fight against corruption, including the UN convention on Corruption, the Council of Europe Criminal and Civil Law Conventions or the OECD Convention on combating bribery of Foreign Public Officials in International Business Transactions. Georgia, Armenia and Azerbaijan have agreed to join international anti-corruption networks, such as the 'Group of States against Corruption' (GRECO), and to implement their recommendations. Finally, each country has some additional provisions that largely concentrate on promoting anti-corruption measures within the administration and/or the law enforcement agencies or on improving the legal framework for the prosecution of corruption-related crimes. The required actions are quite similar for the three Southern Caucasus states and slightly vary with regard to the specificity of certain measures (cf. Börzel/Pamuk/Stahn 2008).

All three CNC have negotiated with the EU a rather ambitious reform agenda, which constitutes a comprehensive misfit with domestic institutions, policies and political processes. The legal and administrative changes required by the EU challenge the political survival of incumbent elites who often rely on clientelistic networks rather than outright repression to stay in power.

Yet, the EU has not exerted sufficient external push to generate pressure for adaptation that could trigger domestic change. The ENP and the Eastern Partnership were explicitly designed to provide an alternative to membership. Basically, they offer deeper cooperation and economic integration in exchange for political and economic reforms. While the EU cannot invoke accession conditionality to push for domestic change, it may (threaten to) suspend bilateral agreements, withhold assistance and impose political sanctions (e.g. visa bans). Likewise, the EU can reward progress by upgrading bilateral relations (e.g. association agreements), lifting trade restrictions (e.g. deep and comprehensive trade agreement), simplifying visa regimes or extending the scope of assistance. These possibilities notwithstanding, the EU has been very reluctant to use conditionality. The CNC have felt little pressure to engage in domestic reforms to meet ENP goals and requirements. It has almost exclusively relied on capacity building and political dialogue. Only once has the EU invoked negative conditionality, when it restricted the provision of technical and financial assistance to Georgia in 2003 due to a lack of progress in fighting corruption (cf. Börzel/Stahn/Pamuk 2010).

The strategy of promoting reforms through positive incentives, in turn, has been hampered by vaguely defined reform goals and the absence of any benchmarks for measuring progress. Moreover, the lack of a credible membership perspective mitigates the prospects of socialization and social learning.

Last but not least, the EU's main strategy to communicate the principles of human rights, democracy, the rule of law and good governance as basic values of the cooperation partnership has been to socialize the CNC partners through a regular political dialogue on these issues. Rather than imposing "a pre-determined set of priorities" (European Commission 2004: 8), the EU's explicit intention is to create mutual support of these principles by means of partnership, joint commitment and ownership. Being a centerpiece of the ENP reform agenda, good governance and the fight against corruption have thus been an integral part of the political dialogue in all three countries. However, as in the case of the other instruments a mixture of indetermination, vagueness and the lack of EU leverage have hampered the effectiveness of the approach. Thus, it is hard to say to what extent political dialogue has fostered socialization and social learning processes at all.

Overall, the tools used by the EU to translate its preferences into national reform priorities and specific measures have been considerably stalled by the vagueness of the defined reform goals, the lack of time-frames and the absence of responsive reform entrepreneurs (cf. Börzel/Stahn/Pamuk 2010). Closer relations with the EU seem to have little attraction for countries such as the CNC that face extremely high adaptation costs in approximating the EU.

Moreover, the EU relation with the three CNC is particularly complex, as Georgia capitalizes on its Western orientation and aspires nothing less than membership in NATO and EU, Azerbaijan stresses its genuine (oriental) values and commands control over substantial resources, and finally Armenia is geographically isolated and maintains close relations with Russia. As a result, the resonance of EU norms and values with the domestic institutions of the CNC has been far lower than in case of the CEEC.

Another crucial factor is that unlike in the CEEC accession process, the EU has done little to empower non-state actors in the CNC. Since 2004, the EU requires ENP partner governments to consult and cooperate with non-state actors and civil organizations in the formulation and implementation of the national reform agendas. Yet, the EU has hardly enforced this requirement. Unlike in other foreign policy frameworks, it has also refrained from upgrading the status of non-state actors within the political dialogue (Börzel/Stahn/Pamuk 2010). The new Eastern Partnership Civil Society Forum, which shall facilitate a dialogue between the CNC governments and local civil society organizations (CSO), has so far done little to change this (Boonstra/Shapovalova 2010).

### *3.2 Weak Pull and Strategic Elites*

While EU push has been limited, there is not much domestic pull either. The importance of civil society organizations in fighting corruption in transition countries is widely recognized. CSO play a vital role in monitoring government actions and making sure that the reforms respect both national and international laws. In lack of state capacity, civil society organizations may also provide an alternative source of knowledge and expertise that enhances to the quality of the anti-corruption programs (cf. Demidov/Panfilova 2001).

Despite signs that civil organizations in the Southern Caucasus have been benefiting from external capacity building and transnational linkages with Western NGOs, trade unions and party foundations, their role in public life and policy is rather low. The idea of an autonomous civil society is still a largely foreign concept in the post-Soviet Southern Caucasus. Moreover, most local organizations tend to function as all-purpose advocacy agencies focusing on a variety of issues that are perceived as important, ranging from democracy building through poverty alleviation to childcare. In many cases, this has resulted in a dilution of expertise and dissipation of resources. Finally, many of the local civil society groups are small-scale organizations with limited personnel that often are hardly equipped to deal with essential technical details. As a consequence, most domestic non-state actors do not have sufficient organizational and ideational resources to mobilize larger parts of the society. This lack of capacity has often served as a pretext for government actors to deny civil society organizations access to the policy process. Additionally, the channeling of resources for civil society building has frequently given rise to a short-lived mushrooming of NGOs that – in the worst

case – use external funding as a mere opportunity for income generation (Matveeva 2008).

Next to limited capacities, the low degree of political liberalization of the CNC circumscribes the political autonomy of civil society. A notable exception was the democratic surge of the Rose Revolution in Georgia that was mainly championed by various grassroots organizations in 2004. The promising event, however, did not bring about democratic consolidation, as the recent incident of the 2008 war illustrate (Lavery 2008; Tudoroiu 2007). In Armenia and Azerbaijan, the situation is even worse. Rule of law and democracy are weakly institutionalized, resulting in the severe limitation of political rights and civil liberties. Domestic activists, who engage in politically and economically sensitive areas such as the fight against corruption, live in constant danger to be assaulted or prosecuted on the basis of false accusations and fictitious evidence. Finally, governing elites have victimized potential change agents, denying business actors and civil society organizations self-sustainable income opportunities if they refuse to being co-opted into the clientele system (Lavery 2008; Karatnycky 2001).

Business is to a significant extent controlled by clientelistic interests in all three CNC. Gradual economic reforms and in-transparent privatization processes cemented a close affiliation of the economic and the political sphere. Domestic companies lack the incentives to press for the introduction of a sound economic framework and the rule of law, precisely because they benefit from market distortions. Although multinational companies have sought access to the CNC, particularly to the energy sector in Azerbaijan, they have little interest in spoiling their relationship with the incumbent regime by pushing for domestic reforms (Hoff/Stiglitz 2004).

#### **4. Fighting Corruption in the Southern Caucasus**

The EU has formulated similar demands for the fight against corruption in Georgia, Armenia and Azerbaijan, causing similar misfit. Limited statehood and democracy have largely prevented this misfit from translating into systematic pressure for adaptation from above and from below. Yet, despite high costs and low pressure, Armenia, Azerbaijan and Georgia have adopted and implemented anti-corruption measures.

##### ***4.1 Introducing Institutional Change***

All three CNC have ratified and given effect to the major international conventions on the fight against corruption (cf. Börzel/Stahn/Pamuk 2010). In order to abide with their international obligations, the governments of Georgia, Armenia and Azerbaijan have introduced a number of institutional changes. They have developed anti-corruption strategies and anti-corruption action plans, which are drafted by a national Anti Corruption Council and whose implementation is supervised by special Commissions. Moreover, the prosecutor offices are charged with the investigation and prosecution of crimes related to corruption. Finally, Georgia, Armenia and Azerbaijan have introduced several legislative changes.

Figure 2: Domestic Institutional Change in the Southern Caucasus

	Azerbaijan	Armenia	Georgia
<b>Anti-Corruption Agencies</b>			
Policy Formulation	Inter-Agency Commission for Combating Corruption (2004), located at the Cabinet of Ministers  Inter-Agency Commission for Combating Corruption (2004), located at the Cabinet of Ministers	Anti-Corruption Council (2004)  Expert Group (2008)	Anti-Corruption Policy Coordination Council (2001)  National Security Council (2005)
Policy Implementation	Inter-Agency Commission for Combating Corruption (2004)	Anti-Corruption Strategy Monitoring Commission (2004)	Department for Coordinating Anti-Corruption Policies (2001)  State Minister of Reform (2005)  Inter-Agency Coordination Council of Combating Corruption (2008)
Investigation and Prosecution	Anti-Corruption Department in Prosecutor General's Office (2005)	Anti-Corruption Department in Prosecutor General's Office (2004)	Prosecutor General's Office (2005)  Inter-Agency Coordination Council of Combating Corruption (2008)
<b>Anti-Corruption State Programs and Strategies</b>			
	State Program on Combating Corruption, including Implementation Action Plan (2004-2006)  National Strategy on Increasing Transparency and Combating Corruption, including Implementation Action Plan (2007-2011)	Anti-Corruption Strategy, including Implementation Action Plan (2003-2007 and 2009-2012)	National Anti-Corruption Strategy (2005 and 2010), including Action Plan for the Anti-Corruption Strategy (2005-2006)

Overall, the three Southern Caucasus Countries have introduced similar institutions to meet the demand of the EU and other international actors to fight corruption. Given the high misfit and low pressure for adaptation, the extent of the domestic changes we observe is not trivial. We should at least see some decoupling,

which would also explain why corruption has remained stable in Azerbaijan and even increased in Armenia (Figure 1). Yet, as the next section will show, all three governments have implemented anti-corruption measures. These changes have not been induced by EU incentives and socialization efforts. They are driven by the differential empowerment of incumbent elites that have instrumentalized the fight against corruption to undermine the power of their political opponents. As a result, Europeanization has had little effect on the informal institutions of clientelism and patronage. EU demands for fighting corruption have helped to stabilize rather than transform bad governance in the Southern Caucasus.

#### *4.2 Azerbaijan: Settling Internal Power Struggles*

Azerbaijan has undertaken quite some changes to fight corruption and the European Commission as well as the OECD have acknowledged the progress the country has made (European Commission 2006: 4; OECD/ACN 2010). Yet, its efforts do not seem to have much effect on levels of corruption (Figure 1). Somewhat paradoxically, this is not only due to a decoupling of formal institutions and behavioral practices as suggested by the literature (Frichova 2010; Bertelsmann Stiftung 2010b). Rather, the Azeri government has been quite selective in implementing and enforcing anti-corruption measures in a way that consolidates their power by disciplining political rivals and centralizing the control over the corruption system.

Azerbaijan's formal political system is characterized by a strong concentration of power in the hands of the executive branch controlled by the president and his apparatus (Franke et al. 2009). In the shadow of these formal institutions, the president relies on an informal division of power in which various networks headed by powerful individuals compete with each other (International Crisis Group 2010). The leaders of these aligned networks hold the so-called "power ministries" of interior, defense and national security. The inner circle of the ruling clique is embedded in a wider network of allies that do not share power as such but participate in the control and distribution of financial and economic resources. It mostly consists of businessmen or so-called oligarchs that have been promoted to 'secondary' positions in government (International Crisis Group 2010). The president and his extended family network control the ruling clique of ministers and their respective networks. The president acts as a gatekeeper to power and resources. Furthermore, he controls all exchanges within the various aligned networks and mediates in cases of conflict among its leaders. The presidential administration, in turn, is headed by one of his most powerful allies and functions as a hub that brokers and coordinates power in the political system (Collins 2004; Wedel 2003).

The fight against corruption has become to play a role in calibrating this informal system of clan politics. The incumbent regime has exploited anti-corruption policies to settle internal power struggles and tighten his grip on the exchange of resources. Like all other major policies, the president initiates and regulates anti-corruption measures by presidential decree, the executive's "frequently used mechanism of governance" (Shaffer 2004: 29), which is exempt from any substantial judicial or legislative oversight. Furthermore, the head of the presidential administration concomitantly also chairs the State Civil Service Committee as well as the Commission for Combating Corruption, which puts him in a key power position (International Crisis Group 2010). In addition, crucial areas that affect the formulation and implementation of anti-corruption policies, such as the budget approval process, the institutional setup, investigation and internal auditing



mechanisms and the office of the ombudsman, are ultimately subject to presidential competences. The legislative and judiciary branches mainly carry out the function of confirming presidential policies (Freedom House 2008).

The overpowering presidential administration thus monopolizes the anti-corruption agenda and dominates all other agencies charged with the fight against corruption (Badalov/Mehdy 2005). The executive's excessive control of the country's anti-corruption agenda allows for a selective implementation of EU demands to direct the flow of spoils and to eliminate income opportunities that could empower self-sustainable competitors beyond the president's and his closest ally's control. Likewise, the Anti-Corruption Commission and the Department for Combating Corruption have been unwilling to take on close allies of the president (International Crisis Group 2010).

A prominent example is the case of Ali Insanov, who was one of the original founders of the ruling Yeni Azerbaijan party and once considered one of Azerbaijan's most influential cabinet members. Heading the so-called Yeraz network, a small but influential group of ethnic Azerbaijanis from Armenia, Insanov had played an active part in the 1993 return of the Aliyev family to power. As remuneration the Yeraz network became junior partner in ruling power arrangement and its leader was appointed health minister. In 2005, Insanov fell from grace for a 'squaring of accounts' with rivaling factions within the ruling clique. Since 2003, the influence of the Yeraz network had gradually declined as the leadership changed from Aliyev Senior to Aliyev Junior (Sidikov 2004; Avioutskii 2007). Accused of corruption and abuse of power, Insanov was stripped off all his offices and put on trial in 2007. A similar case exhibits the more complex side of the power arrangement. At first sight, ex-minister of economic development Farhad Aliyev (no relation with the president) also was victim to a rivalry among the so-called oligarch group of business interests close to the ruling circle (cf. Eurasianet 2007). Aliyev was said to belong to a "new guard" of politicians that were reckoned (mostly by the West) as reform-minded, Western-educated allies of the young president. Some observers claim that Aliyev clashed and lost over spoils with a fellow minister and protégée of the "old guard" headed by the chairman of the presidential apparatus (cf. Ismayilov 2006). Other sources, however, claim that Aliyev was punished for trying to deceive his patron in financial matters. In any case, Aliyev was charged with a coup attempt, corruption and abuse of office, embezzlement of state property, smuggling and tax evasion and, together with Insanov, convicted to several years of imprisonment (BBC Worldwide Monitoring Service 2008).<sup>2</sup>

In sum, the efforts of Azerbaijan's authorities to fight corruption have focused on strengthening the state apparatus, expanding its control over society and fostering the power of the incumbents. As a result, the government of Azerbaijan has mainly called on the EU's programs for technical assistance and twinning projects that aim at capacity building of the executive central state agencies. Genuine public participation and civil oversight, by contrast, is not part of the scheme. On the contrary, the regime has used corruption allegations to control its own camp and to undermine civil society actors and representatives of the media who have become too critical of the authorities (Freedom House 2008a). Although the level of corruption has not decreased, its forms and scope have changed. Next to administrative corruption including outright bottom-up bribing and decentralized instances of extortion, political corruption has gained prominence

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<sup>2</sup> The property of both ex-ministers was confiscated and auction in favour of the treasury in 2009.



and together with anti-corruption has become part of a sophisticated governance system controlled by the incumbent elites (International Crisis Group 2010).

#### *4.3 Armenia: Pleasing External Donors*

Armenia has been under strong pressure of international donors and its Diaspora to reduce the ever growing corruption. Its government has adopted and implemented anti-corruption measures. However, corruption has increased rather than decreased (Figure 1), which is at least partly due to a similar exploitation of the fight against corruption as we observe it in Azerbaijan, albeit with a different purpose. Rather than undermining the power of political opposition, the Armenian government has used the fight against corruption to deflect international criticism ensuring external aid and attracting foreign direct investment.

The incumbent regime in Armenia is more united than that of Azerbaijan. Its locus of power mainly rests with the security apparatus, including the armed forces and related veteran organizations such as the Yerkrpah (Bedevian/Stepanian 2006).<sup>3</sup> Armenia's historical irredentism and the Karabakh conflict have created a strong sense of national identity that has bound together the country's various rivaling elite factions and makes them more reluctant to engage in internal power struggles. At the same time, power conflicts coagulate along nationalistic issues (Karabakh and Turkey) rather than personal feuds (Hovannisian 2008), which renders the use of anti-corruption measures more difficult. Most importantly, the power balance within government is organized differently than in Azerbaijan. A 'hyper-executive' with wide-reaching competences dominates the state apparatus (Shahnazaryan 2003). However, the parliament plays a comparatively stronger role in the informal power arrangement than in Azerbaijan. In order to protect their businesses from the grasp of the incumbent elite within the state apparatus, the so-called oligarchs have increasingly assumed membership in parliament (Freedom House 2008b). Furthermore, genuine political parties that enjoy support from the influential Diaspora organizations have succeeded in building a stronghold in parliament (Dudwick 1993). As a consequence, Armenia's president relies on a much broader range of influential network leaders as well as organizations. He seeks to strike a balance between different elite groupings within the security apparatus, the executive and to a lesser extent the parliament.

Similar to Azerbaijan, corruption clean-ups serve as an instrument of internal power struggle. However, this occurs on a much lower regime level, including purges in the judiciary and medium-level state bureaucracy. As the case of the 1999 parliamentary shooting demonstrates, serious high-level infighting is "solved" by other means (Hoffmann 1999).

Even more important than settling internal power struggles, the fight against corruption serves the incumbent regime to attract external resources. Armenia is much more dependent on external financial aid than Azerbaijan (Libaridian 2004). In 1994, Armenia suffered a considerable economic setback due to the

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3 The Union of Volunteers Yerkrpah (Guard of the Country) is a paramilitary organization that was founded in 1993 during the Karabakh war. After the cease-fire in 1994 Yerkrpah has become an influential pressure group whose members hold important positions in the national police and army.

closure of its borders with Turkey and Azerbaijan. As a consequence of this regional isolation, business opportunities are limited and Armenia's economy is heavily dominated by oligarchic monopolies. At the same time, the nationalistic Armenian Diaspora is quite influential in domestic politics. Consisting of very disparate groupings, including various organizations and parties in the United States, France and the Lebanon, the Diaspora provides considerable financial aid and other resources to the country (Gillespie/Okruhlik 1991; International Organization for Migration 2008). Yet, corruption and take-over of shares by the state have been a major impediment for Diaspora investors. "If patriotism helps to buy a ticket to visit Armenia, it is not enough of an argument to part with one's life savings, without any guarantee of profit, and without any state protection" (Manaseryan 2004: 20). This holds also true, of course, for foreign investors.

With the country's ever more rampant corruption (Figure 1), Diaspora organizations have supported the implementation of domestic reforms of the public administration and judiciary, customs, tax, education, public health and other sectors (Transparency International Armenia 2006; Aghajanyan 2010). Under increasing international pressure, the Armenian government launched some publicly visible attempts to crack down corruption, including the sacking of corrupt officials in the tax department, customs service and police. Given their lack of systemic effect, such changes in personnel have been criticized for being merely symbolic (Grigoryan 2008).

In sum, anti-corruption policies have mostly served to please the international donor community and attract foreign direct investments in order to overcome the economic isolation of the country. With no need to control the flow of rents and to eliminate political rivals, the Armenian government has addressed political and administrative corruption only symbolically as to avoid the discontent of international donor organizations.

#### *4.4 Georgia: Consolidating New Power Structures*

In the first decade after its transition, Georgia had done little to fight the pervasive corruption that crippled its state institutions and its economy (Darchiashvili/ Nodia 2003; Kikabidze /Losaberidze 2000). Only when external donors started to voice their discontent threatening to withdraw their support, President Shevardnadze introduced some formal changes. Much earlier than his counterparts in the region, he declared 1997 the year of the "crusade against corruption" (McGiffert Ekedahl/Goodman 2001: 12) and the government launched its first anti-corruption campaign. At the same time, however, Shevardnadze made sure that he remained the 'gatekeeper' to international financial aid. In order to build and maintain power, the president used these resources to ensure the support of various power brokers and warlords. In exchange for their subordination, these power brokers were given the right to control and exploit certain sectors, in particular import and export, and take their share of revenues. As a result, vested interests and organized crime increasingly undermined the state apparatus (Wheatley/Zürcher 2008). In September 2001, the minister of justice, Mikheil Saakashvili, left the government and founded an opposition party, the United National Movement, pledging to take issue with the Shevardnadze government over corruption.

After Shevardnadze had tried to steal the vote in the 2003 elections, mass popular protests and international

pressure forced him to resign from office. With presidential and parliamentary elections, Mikheil Saakashvili and his party could secure large parts of the electoral support. He declared the fight against corruption to be the core of his government policies (Wheatley 2005). The new government immediately took action against corruption within the law enforcement agencies, resulting in the complete dismantling of the traffic police, which had been considered as one of the most corrupt institutions of the country. 15.000 officers lost their jobs practically overnight. In addition, a special force of 30.000 men and women attached to the Ministry of Interior was dissolved and all members fired. Reforms of the police forces continued with investments in modern equipment, the creation of a new police academy, mandatory exams and training for police officers, and considerable increases in the salaries. At the same time, draconian fines for minor offences were adopted. Petty corruption was upgraded as a serious crime, warranting several years of imprisonment (Boda/Kakachia 2005; Hiscock 2005).

Like his predecessor, Saakashvili placed the fight against corruption under the direct control of his government. Since 2006 and 2008, respectively, the Minister of State Reform and the Minister of Justice, who heads the Inter-Agency Coordination Council of Combating Corruption, have been charged with the drafting and implementation of anti-corruption policies. While state authorities resolutely targeted petty corruption at lower levels of bureaucracy, Sakaashvili has been accused of turning a blind eye to major corruption and abuse of power among his closest allies he had allegedly placed in many prominent positions. Similar to Azerbaijan, corruption has not been eradicated but rather transmogrified into elite corruption (Chiabrishvili 2009). Next to rewarding his closest associates, Saakashvili has also used the fight against corruption to oust political opponents. When the former minister of defense and close associate of Saakashvili, Irakli Okruashvili, left the government in 2006, formed an opposition party and accused the President of numerous crimes, he was arrested on corruption charges. A court found him guilty of large-scale extortion and sentenced him to eleven years in prison. What was widely perceived as political persecution sparked mass protests and contributed to the rise of antigovernment rallies in 2008 (Freedom House 2008c). Finally, the eradication of entrenched corruption has helped to boost foreign direct investments and economic stabilization. The EU, the IMF and other international actors, which had suspended assistance before the Rose Revolution, stepped up their financial support for Georgia's new government. The EU almost doubled its support (European Commission 2005); the net official development assistance and official aid increased by more than ten times between 2002 and 2007; so did the foreign direct investments (World Bank a; Index Mundi).<sup>4</sup> In 2006, the World Bank and the International Finance Corporation declared Georgia the "best reformer in the world" regarding its business environment (Freedom House 2007). The fight against corruption is an integral part of the liberal economic reforms the Saakashvili government has been pushing. While the minister of state reforms, Kakha Bendukidze, has pushed privatization as a major solution to corruption, he claims that anti-corruption measures promote economic growth by scrapping ineffective public institutions (European Stability Initiative 2010).

In sum, the Saakashvili regime has successfully used anti-corruption measures to break up and replace the power structures established by the Shevardnadze regime, to consolidate his new power structures, to

4 Cf. The World Bank Data on Georgia available at <http://data.worldbank.org/indicator> and Index Mundi on FDI, net inflows in Georgia 1997 - 2009 available at <http://www.indexmundi.com/facts/indicators/BX.KLT.DINV.CD.DT/compare?country=ge#country=ge>.

step up international support and attract foreign direct investment and to promote his libertarian reform agenda. The better fit of the international anti-corruption agenda and the political preferences of the incumbents in Georgia as well as the country's dependency on foreign aid largely explain why it has a much better record in fighting corruption than Azerbaijan and Armenia.

## 5. Conclusion

The Southern Caucasus is a least likely case for external Europeanization. With the ENP, the EU has developed a sophisticated framework to transform the domestic structures of former Soviet republics ridden by bad governance. But misfit is high and in the absence of a membership perspective the EU has little to offer to pay-off at least some of the adaptation costs. Nor has the EU exerted much pressure for adaptation, relying on assistance and political dialogue rather than (negative) conditionality. Finally, in the incumbent regimes there are hardly any reform coalitions the EU could empower, while reform coalitions in society do lack sufficient influence. While according to our expectations we should not see much domestic change in terms of genuine Europeanization, the governments of Georgia, Armenia and Azerbaijan have in fact responded to the EU's demand for good governance. Georgia has been most active in fighting corruption. The EU's anti-corruption policies resonated with the political agenda of the Saakashvili government lowering the costs of adaptation. At the same time, the EU and other Western donors promised to support the fight against corruption by additional financial means and closer cooperation. Armenia is as dependent on international assistance as Georgia. Its ruling elite has been less enthusiastic in fighting corruption but started to enact policies when external pressure rose. Even Azerbaijan, which has been most reluctant to endorse the EU's good governance agenda and is least dependent on external resources, established similar institutions and policies as its two neighbors. Finally, all three regimes have implemented anti-corruption measures that have taken some effects. Thus, the EU does have an impact on countries that lack a membership perspective even if costs of adaptation are high, external pressure is low and there are no liberal reform coalitions to pull EU policies down to the domestic level. Europeanization is driven by the differential empowerment of incumbent elites that align their preference for power consolidation with the EU's demand for domestic change. Corruption is fought where it helps to oust political opponents, deflect international criticism and attract foreign assistance and investments. Due to differences in statehood and democracy, Europeanization has taken different effects in the three countries (Figure 3). While it has given rise to similar institutional changes, behavioral practices and the overall impact on corruption differ. Georgia, which due to its dependency on external aid is the most pluralistic of the three countries, has suffered most from serious problems of limited statehood. Therefore, the Georgian authorities have used the international anti-corruption agenda to strengthen statehood by improving the capacity of state institutions to enforce public policies and fostering economic growth. In Azerbaijan, the least democratic and pluralistic regime, the incumbent elites have exploited the fight against corruption to oust political opponents and restrict pluralism. In Armenia, which is stuck in transition and shows the highest degree of statehood, the implementation of anti-corruption measures has been mostly symbolic to deflect international criticism and ensure the flow of foreign aid and investments, particularly of its Diaspora. Given the better fit between the EU's demand for good governance and the preferences of the Saakashvili government, Georgia has made

greater progress in reducing corruption levels than Azerbaijan and particularly Armenia, where endemic corruption even increased due to the complete ‘oligarchization’ of economy. Yet, in all three countries, the incumbent elites have ultimately captured the EU’s anti-corruption agenda to tighten their control over the allocation of resources within the political system and to attract additional resources from the outside. Europeanization can trigger domestic institutional change in third countries that suffer from low levels of statehood and democracy and (therefore) lack an accession perspective, if it empowers incumbent elites. Rather than transforming structures, however, Europeanization helps to stabilize the political and economic structures of neighborhood countries. While they improved their statehood, the level of democracy has remained quite stable on a rather low level (Figure 3).

*Figure 3: Democracy and Statehood in the Southern Caucasus<sup>5</sup>*

	Armenia	Georgia	Azerbaijan
Bertelsmann Transformation Index on Statehood	8,8 (2010) 4,0 (2003)	6,3 (2010) 2,0 (2003)	7,0 (2010) 3,0 (2003)
Freedom House Freedom in the World Index on Democracy	5 (2010) 6 (2003)	4 (2010) 4 (2003)	5.5 (2010) 5.5 (2003)

The scale of the Bertelsmann Transformation Index on Statehood ranges from 1 (failed state) to 10 (consolidated state).  
The scale of the Freedom House - Freedom in the World Index on Democracy ranges from 1 (free) to 7 (not free).

<sup>5</sup> Cf. the Bertelsmann Transformation Index (BTI) country reports on Armenia, Azerbaijan, and Georgia, 2003 and 2010 and the Freedom House country reports on Armenia, Azerbaijan, and Georgia 2003 and 2010.

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